

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Southern California Gas Company
(U 904 G) and San Diego Gas & Electric Company
(U 902 G) For Authority To Recover North-South
Project Revenue Requirement In Customer Rates
And For Approval Of Related Cost Allocation And
Rate Design Proposals

A.13-12-013
(Filed December 20, 2013)

**MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G)
SEEKING AUTHORIZATION TO SUBMIT UPDATED TESTIMONY**

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**MOTION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)
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FOR AUTHORIZATION TO SUBMIT UPDATED DIRECT TESTIMONY**

Pursuant to Rule 11.1 of the Commission's Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby submit this Motion for Authorization to Submit Updated Direct Testimony (Motion).

I. INTRODUCTION

On December 20, 2013, SoCalGas and SDG&E filed an application for authority to recover the revenue requirement associated with the North-South Project in customer rates, and for approval of related cost allocation and rate design proposals. This proposed project would transport supplies delivered at the North Needles, South Needles, Kramer Junction, Wheeler Ridge, and Kern River Station receipt points, as well as supplies from SoCalGas' Honor Rancho storage field, to customers located on SoCalGas' Southern System.¹ SoCalGas and SDG&E believe this project is needed to maintain Southern System reliability and alleviate the potential for curtailments of customers on the Southern System due to a potential

¹ Application at 14.

mismatch between the demand of such customers and the volume of flowing supplies delivered to the Southern System to meet that demand.²

The North-South Project described in our Application consists of three elements: (1) a new 36-inch diameter pipeline approximately 60 miles long, from Adelanto Compressor Station to the Moreno Pressure Limiting Station, (2) rebuilding of the existing Adelanto Compressor Station with approximately 30,000 HP of compression, and (3) an additional 31 miles of new pipeline from Whitewater Station to Moreno.³ Proposed estimated direct costs for each portion of the project were summarized in Table 2 of the Application:

Table 2⁴
Estimated North - South Project Direct Costs
(In Millions of Dollars)

Direct Capital Costs	Total
Adelanto to Moreno Pipeline	\$331.8
Adelanto Compressor Station	\$110.7
Moreno to Whitewater Pipeline	\$186.1
Total	\$628.6

II. REDUCTION IN NORTH-SOUTH PROJECT SCOPE

After careful review of intervenor responses to our Application, and after careful consideration of the potential alternatives to the proposed North-South Project, SoCalGas is reducing the scope of the proposed project. SoCalGas is continuing to pursue the first two elements of the project, namely the Adelanto-to-Moreno pipeline and the rebuild of the Adelanto Compressor Station. But SoCalGas will no longer be moving forward with the proposed 31-mile Moreno-to-Whitewater pipeline portion of the project.

² Application at 1.

³ Application at 13.

⁴ Application at 15.

As explained in the proposed Updated Direct Testimony of David Bisi, the Moreno-to-Whitewater pipeline portion of the project would only be needed to ensure that no flowing supplies will be required at Blythe even under the robust demand scenario used to develop the Project – a 1-in-10 year cold day demand forecast for core customers along with the connected capacity for existing large noncore customers.⁵ As pointed out by Mr. Bisi, if the other two portions of the North-South Project are constructed, SoCalGas would only need 100 MMcf/d of flowing supplies at Blythe under that demand scenario.⁶ Moreover, under a more traditional 1-in-10 year cold day demand forecast for core and noncore customers, no flowing supplies would be needed at Blythe once the Adelanto-to-Moreno pipeline and the rebuild of the Adelanto Compressor Station are placed into service.⁷

As explained in our Application, SoCalGas and SDG&E are strongly concerned about the reliability needs of Southern System customers, and the potential for future supply-related curtailments on the Southern System. The two remaining portions of the North-South Project – the Adelanto-to-Moreno pipeline and the Adelanto compressor upgrade – will provide that needed supply reliability under all conditions up to the very robust demand scenario – 1-in-10 cold day *plus* all connected capacity for existing large noncore customers -- we used to develop our proposal. As a result, SoCalGas and SDG&E are choosing to focus our efforts on these two elements of the project.

By eliminating over \$186 million in forecasted expenditures, this scope reduction will substantially reduce the cost of the project while providing Southern System customers with

⁵ Updated Direct Testimony of David Bisi at p. 10.

⁶ Updated Direct Testimony of David Bisi at p. 10-11.

⁷ Updated Direct Testimony of David Bisi at p. 10.

almost all of the proposed benefits of our original proposal.⁸ This scope reduction should also simplify environmental review, permitting, and land acquisition, and reduce project risks.

SoCalGas and SDG&E continue to believe that the proposed Moreno-to-Whitewater portion of the project would be a useful reliability improvement. Ideally, SoCalGas would be able to serve Southern System customers without relying on any flowing supplies at Blythe. However, SoCalGas and SDG&E believe that this cold-day flowing supply requirement can be dealt with, at least in the short-to-medium term, by means other than the Moreno-to-Whitewater pipeline.⁹

SoCalGas and SDG&E will be giving careful consideration to potential ways to deal with 1-in-10 cold day flowing supply requirements at Blythe, but we are not including any such proposals in the current application. Instead, we should be able to satisfy such requirements, at least in the short-and-medium term, through means other than physical system improvements. Any such proposals would have a substantially shorter anticipated lead time than the remaining elements of the North-South Project, and would be presented to the Commission via a separate application or advice filing.

III. INCREASE IN PROJECT COSTS AND ESTIMATE CERTAINTY

As a result of a substantial amount of engineering and field route work completed since our original application, SoCalGas and SDG&E have refined their cost estimates and increased the accuracy certainty level of those estimates (Class 3 AACE estimate now, rather

⁸ As noted above, the Moreno-to-Whitewater pipeline was originally estimated to cost \$186.1 million, and this estimate was provided before we refined route and cost inputs, as we have now done for the remaining portions of the project. An updated estimated for the Moreno-to-Whitewater portion of the Project would likely be well above \$186.1 million.

⁹ SoCalGas and SDG&E are not foreclosing the possibility of proposing this particular improvement at some future time. As explained by Mr. Bisi, eliminating this pipeline now does not preclude its construction later. (*See Updated Direct Testimony of David Bisi at p. 11.*) But any such proposal would not be a part of this proceeding.

than our original Class 4 estimate). The project scope and execution plan is more developed, resulting in a better understanding of the project requirements, which in turn has resulted in an increase of our proposed costs for the Adelanto-to-Moreno pipeline and the Adelanto Compressor Station upgrade.

As set forth in the Updated Direct Testimony of David Buczkowski, estimated direct costs for the Adelanto-to-Moreno pipeline have increased from \$331.8 million (in 2013 dollars) to \$484.5 million (in 2014 dollars), and estimated direct costs for the Adelanto Compressor Station upgrade have increased from \$110.7 million (in 2013 dollars) to \$136.8 million (in 2014 dollars).¹⁰

As explained by Mr. Buczkowski, the primary drivers for the Adelanto-to-Moreno pipeline upward revision are increases in construction, engineering, environmental and material costs along with updates to other project execution costs.¹¹ Since originally filing our Application, the Adelanto-to-Moreno pipeline route has been further studied with alignment adjustments increasing mileage from approximately 60 miles to approximately 63 miles and increased footage in paved roads as opposed to previously planned footage in dirt roads. Valve spacing has also been refined, resulting in an increase in mainline and other valves. These changes have increased our cost estimates for materials, engineering, and construction.¹²

Additional research and discussions with local agencies have improved our understanding of terrain and soil conditions, specifically sandy soil, historic road construction practices and groundwater, resulting in better definition of the requirement to shore trenches

¹⁰ Updated Direct Testimony of David Buczkowski at pp.2-3.

¹¹ Updated Direct Testimony of David Buczkowski at p. 2.

¹² Updated Direct Testimony of David Buczkowski at p. 2.

with plywood, trench through multiple layers of asphalt and concrete, and dewater trenches.¹³

The United States Forest Service has also provided guidance on construction access and construction-related restoration. These inputs have driven up the per-foot construction cost estimates, and have increased engineering cost estimates.¹⁴ In addition, pipeline construction costs increased by over 5% in 2014, and skilled pipeline construction trades are now commanding wage and per diem premiums as pipeline construction takes off across the country further driving up costs. As a result of these and other construction challenges and risks, we have increased our construction cost contingencies to 16%.¹⁵

We have updated our environmental cost estimates as a result of extensive field studies and input from state and federal agencies. Increases include costs required by state and federal agencies for consultants to prepare CEQA and NEPA environmental reports and studies, construction monitoring, and mitigation.¹⁶ Other project activities that have cost estimate increases include land acquisition, outside legal services, company labor, and outreach activities.¹⁷

As explained by Mr. Buczkowski, the major drivers for the \$26.1 million increase in the estimated direct cost of the Adelanto Compressor Station upgrade include: pipe and fittings; updated compressor equipment cost estimates; additional environmental costs; and an increase in Adelanto Compressor Station project contingency to 15%.¹⁸

The new total estimated direct cost of the North-South Project, taking into account these estimated cost increases for the Adelanto-to-Moreno pipeline and the Adelanto

¹³ Updated Direct Testimony of David Buczkowski at pp. 2-3.

¹⁴ Updated Direct Testimony of David Buczkowski at p. 3.

¹⁵ Updated Direct Testimony of David Buczkowski at p. 3.

¹⁶ Updated Direct Testimony of David Buczkowski at p. 3.

¹⁷ Updated Direct Testimony of David Buczkowski at p. 3.

¹⁸ Updated Direct Testimony of David Buczkowski at p. 3.

Compressor Station upgrade as well as elimination of the Moreno-to-Whitewater pipeline portion of the project, is now reduced to \$621.3 million from our original estimate of \$628.6 million.

IV. UPDATED TESTIMONY

SoCalGas and SDG&E want our testimony to reflect the revised scope of the North-South Project. We also believe it is important for the Commission to have the updated costs so it can accurately evaluate the merits of our proposed project. Our proposed updated direct testimony: (1) eliminates the Moreno-to-Whitewater pipeline portion of the project; (2) provides our on-the-record rationale for this scope reduction; (3) updates the cost of the remaining two portions of the North-South Project, and provides an explanation for substantial cost changes as well as additional detail regarding certain categories of forecasted expenditures; (4) replaces the preliminary project report by The Research Corporation (TRC)¹⁹ with an updated project report that reflects the revised project scope, as well as the additional work done since December of 2013 that has resulted in an increased level of project definition, degree of completeness of deliverables, and maturity of cost estimates; (5) updates rate-related testimony to incorporate both the scope reduction and cost increase; and (6) substitutes Gwen Marelli for Beth Musich, Jason Bonnett for Joseph Mock, and Jimmie Cho for Rick Morrow to reflect changes in job positions and the retirement of Mr. Morrow.

Our updated direct testimony also contains certain typo corrections and minor wording changes (e.g., spelling out undefined abbreviations in Ms. Marelli's testimony). However, in order to keep this update limited and focused, SoCalGas and SDG&E have not updated their testimony to reflect factors other than the referenced scope reduction and cost updates. In

¹⁹ The TRC Report was originally submitted as Attachment A to the Supplemental Direct Testimony of Mr. Buczkowski dated March 28, 2014.

particular, we have not updated historical information such as charts and graphs in order to reflect the passage of time from our original filing.

Both redlined and clean versions of our updated direct testimony have been posted on the SoCalGas website.

<http://www.socalgas.com/regulatory/A1312013.shtml>

<http://www.sdge.com/regulatory-filing/9631/application-southern-california-gas-company-and-san-diego-gas-electric>

V. SCHEDULE

SoCalGas and SDG&E do not believe that updating our direct testimony should change the schedule for this proceeding. We are deleting a substantial portion of the project, which should streamline this proceeding and simplify review of our proposal.

Evaluation of our updated costs for the Adelanto-to-Moreno pipeline and the rebuild of the Adelanto Compressor Station may create some initial additional work for intervenors. But the additional certainty associated with our proposal will allow for a more informed evaluation of our proposal, and ultimately should create efficiencies when compared with evaluations and arguments regarding our initial less precise estimates.

SoCalGas and SDG&E are submitting this update more than 35 days in advance of the current December 19 deadline for intervenor testimony, which should be enough time for intervenors to evaluate our updated direct testimony. That said, SoCalGas and SDG&E recognize that certain intervenors such as ORA and TURN face substantial workload challenges. If parties wish to have limited extensions in the existing schedule in order to evaluate our updated direct testimony, SoCalGas and SDG&E would not oppose such extensions.

VI. CONCLUSION

For the reasons set forth above, SoCalGas and SDG&E respectfully request that the Commission grant them authority to submit the updated direct testimony described in this Motion.

Respectfully submitted,

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